

3. A description of the four factors that were the *primary* cause of the adverse action that resulted from the insurance score.

11. What is an adverse action?

An adverse action for automobile and homeowner's insurance constitutes any of the following:

- If you are declined coverage.
- If your coverage is terminated.
- If an agent fails to apply for coverage with an insurer you requested (if the agent represents that insurer).
- Placement in the assigned risk plan or in the non-standard market or with a surplus lines carrier.
- If you are charged a higher rate on the basis of information which differs from that which the applicant provided.
- If you are assigned to a higher rating tier.
- If the agent or insurer fails to give you a discount or credit because of your credit/consumer report or insurance score.

12. How can I improve an unfavorable insurance score?

You are entitled to receive a *FREE* copy of your credit report once a year from each Credit Bureau. Review your credit reports for accuracy. If you find errors, the law gives you the right to have them corrected. After you correct errors in your credit history, the law requires that an insurer reconsider its underwriting decision if you request it.

Find out from your agent or insurer what credit "factors" resulted in your insurance score. Then work with a financial consultant and/or your insurer or agent if they offer such services to find ways to improve your credit. Consider keeping existing credit cards rather than

accepting new credit card offers, or consider closing some credit accounts.

13. What can I do if my credit report contains erroneous information?

Tell the credit bureau. Credit bureaus must investigate alleged errors. You can ask the credit bureau to send a notice of corrections to any creditor or insurer that has checked your file in the last six months. It's a good idea to obtain a new copy of your credit report several months later to make sure the erroneous information has been corrected or deleted. Note, you must correct errors with each credit bureau separately.

Consumer groups suggest that you get a copy of your credit report from the following three credit bureaus every year to check for errors:

- Equifax (www.credit.equifax.com or 800-685-1111);
- Experian (www.experian.com or 888-397-3742); and
- Trans Union (www.transunion.com or 800-888-4213).

Tell your insurer. You do not need to wait until the credit bureau contacts your insurer. Inform your insurer that you are disputing information in your credit report and ask if correction of these errors will impact your insurance score.

14. Where can I go for help with credit problems?

If you can't resolve your credit problems alone, there are non-profit credit counseling organizations that may be able to help you. In addition, non-profit counseling programs are sometimes operated by churches, universities, the military, credit unions, and housing authorities. You can also check with a local bank or consumer protection office

to see if it has a list of reputable, low-cost financial counseling services.

Some credit repair firms promise, for a fee, to get accurate information deleted from your credit file. Be wary of those entities because truthful information, even if affordable, cannot be deleted from your credit record. You have the same access to credit reporting agencies that credit repair firms do and you are entitled to dispute credit report items for free.

15. Where can I get more information?

- Ask your agent or insurer for materials about the insurer's use of credit.
- Search the Internet for "credit score" or "insurance score". Two websites that might be helpful are:
www.myfico.com
www.consumerdisclosure.com
- Contact the Federal Trade Commission to obtain its consumer brochures on credit by calling 877-382-4357 toll free or visiting its website at www.ftc.gov.
- Contact the Department of Insurance by calling toll free at (800) 325-2548 or visit www.azinsurance.gov.

16. Why should I shop around for my insurance?

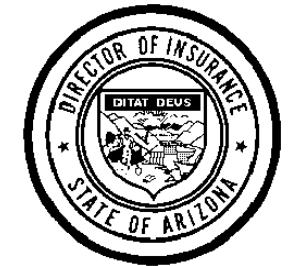
Insurance rates, whether based on credit history or not, vary dramatically from company to company. Call the Department of Insurance for free tools to help you comparison shop, or visit our website at www.azinsurance.gov.

To request ADA accommodations, please call (602) 364-3100.

STATE OF ARIZONA

Consumer Guide

Understanding How Insurers Use Credit Information



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Many automobile and homeowner insurers review a consumer's credit information in making a decision whether to issue or renew policies and what premium to charge. The following questions are intended to explain how some insurers use your credit information and your rights when that happens.

1. Can an insurer look at my credit information without my permission?

Yes. The federal Fair Credit Reporting Act (FCRA) states that insurers have a "permissible purpose" to look at your credit information without your permission.

Insurers must notify applicants that they can collect personal information about you, including credit information. They must also inform you that you have the right to access this personal information and request that it be corrected if inaccurate. There are limits on an insurer's ability to release your personal information to third parties.

2. Why are some insurers using credit information?

Some insurers have statistical information to support a correlation between a policyholder's credit-related behavior and the losses a policyholder may incur under the policy. These insurers interpret the information as indicating that persons having better credit-related behavior are likely to have fewer and/or less severe insurance losses. Therefore, many insurers consider a person's credit history in determining whether to insure someone and what price to charge.

3. What is an insurance score?

While some insurers may look at your actual credit report, most rely upon an "insurance score" which is developed by the same type of vendor that also develops "credit scores" for lenders.

An "insurance score" is used by an insurer to predict the likelihood that an applicant or policyholder will have losses. A "credit score" is used by a

lender to predict the reliability of an applicant or borrower in repaying a loan.

An "insurance score" is developed by applying an algorithmic formula to your credit report to derive a numeric score.

4. What factors are considered in developing the insurance score?

Different insurers use different factors. One insurer might place more weight on a certain factor while another insurer might not consider it at all. Factors are assigned a weighted value that, when applied to your specific credit history, equals your final score. The factors used in many scoring models include:

Public Records: bankruptcy, collections, foreclosures, liens, etc.

Payment history: number and frequency of late payments; elapsed days between due date and payment.

Length of credit history: period you've been in the credit system.

Inquiries for credit: number of times you've recently applied for new accounts, including mortgage loans, utility accounts, credit card accounts, etc.

Number of open credit lines: number of open credit cards, whether you use them or not.

Number of "installment accounts": how many opened in last 24 months.

Type of credit in use: major credit cards, store credit cards, finance company loans, etc.

Unused credit: how much you owe compared to how much credit is available to you.

5. Are there factors that an insurer can NOT use?

Yes. Arizona law prohibits insurers from using the following types of credit history

to calculate an insurance score to determine premiums:

- The absence of or inability to determine a person's credit history (see question No. 8)
- Collection accounts identified with a medical industry code
- A bankruptcy or lien satisfaction that is *more than 7 years old*
- The consumer's total line of available credit (except they can consider the ratio of the amount of debt to the amount of available credit)
- A credit score that is derived from the income, gender, address, zip code, ethnic group, religion, marital status or nationality of the consumer as a factor.

6. How are insurers using insurance scores?

Many insurers are using insurance scores to both "underwrite" and "rate" policies.

"Underwriting" is deciding whether to issue you a new policy or to renew your existing policy.

"Rating" is deciding what price or premium to charge.

After your automobile insurance policy has been in effect for 60 days, an insurer can *not* cancel or non-renew your automobile policy based on your credit history or insurance score. There is no similar law limiting non-renewal of *homeowners* insurance.

7. How do I know if an insurance company is looking at my credit?

Some agents and insurers will ask for your social security number to obtain "consumer information," "background information," or an "insurance credit score." When asking for a premium quote or submitting an application,

consumers should ask their agent or insurer to explain how the insurer may use credit information to issue or price its policies.

8. Will having no credit history affect my insurance purchase?

Arizona law prohibits an insurer from taking an "adverse action" based on a lack of credit history (or its inability to determine credit), unless it is actuarially justified or the insurer treats the consumer as having neutral credit information.

9. Must an agent or company tell me my insurance score?

No. In fact, the agent or insurer may not know your actual insurance score. The vendor may only tell the insurer that your score qualified you for a particular rate.

Knowing your insurance score may not be useful because an insurance score is just a snapshot of your credit on a particular day and it can change when there is a change in your credit activity. Also, because insurers use different scoring models, your score can vary from insurer to insurer.

10. How will I know if my credit is affecting my insurance?

Arizona law and the FCRA require an insurer to tell you:

- If it has taken an "adverse action" against you because of your credit history.
- The specific reason for the adverse action, including at least the following:
 1. If the decision was based on your credit report or absence of credit history.
 2. The source of the credit report and how to obtain a copy.